



# Performance Perspective

Report #4

CITY OF SEATTLE

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Performance Perspective is a periodic newsletter issued by the Office of City Auditor. The purpose of these reports is to highlight general management principles or to disclose successful, useful or problematic program-management issues. Please send your comments, suggestions, questions, or concerns regarding these reports to Nora J.E. Masters, City Auditor, MS 01-11-01, telephone 233-0088.

## Handling Cash

### Removing Temptation

*"Malfeasance is usually just a matter of opportunity."*  
Edwin C. Biss, management author.

Cash-collection procedures are so fundamental to City operations that it is impossible to overstate the importance of a good system of controls over the collection of cash. Making it easy for an employee to steal money hurts the City in three ways. First, employees who steal money deprive the City of needed resources, making it more difficult to accomplish objectives. Second, staff who resist the opportunity of taking cash may be distracted from their job and demoralized by knowing how easily theft can occur. This can also negatively impact both productivity and trust. Finally, nothing is more damaging to the City's reputation than newspaper articles describing how an employee managed to steal money from the City and go undetected for a long period of time.

#### **Most cases of cash stolen in the workplace have two things in common.**

- The cases involved a trusted employee.
- The cases could have been prevented (or discovered much earlier) if management had implemented rudimentary cash handling procedures.

### Managers Are Responsible for Designing and Implementing Good Controls

The responsibility for good cash handling controls rests squarely on managers. In addition to designing and setting up good cash handling systems, managers must periodically review their systems to ensure they are still working as intended.

At its most basic, a good cash handling system ensures that:

- (1) individuals receiving cash do not approve or sign checks or warrants;
- (2) individuals receiving cash do not prepare entries for noncash accounting records, such as accounts receivable, the general ledger, or the general journal;
- (3) all cash and checks are deposited promptly; and
- (4) all receipts of cash and checks are documented, whether by means of a cash register, prenumbered receipts or prenumbered invoices.

To assist managers in establishing and monitoring their cash-handling systems, the Office of City Auditor has developed a review checklist (on back). Some of the items in the checklist may not apply to every cash-handling system because they depend upon the size of the cash transactions and the functions of the department. Also, managers may be unable to implement some of the controls in the checklist due to limited resources; in these cases, alternative compensating controls may be needed to monitor the system. The Office of City Auditor is available to assist in designing these alternatives. We encourage you to use this checklist to review your system and to provide copies of the checklist to other interested staff and management.

*"If you forfeit the confidence of your fellow-citizens, you can never regain their respect and esteem."*  
Abraham Lincoln

When you take the basic precautions that will help prevent theft, you are not being paranoid. Instead, you are being professional, and you are doing your employees a favor. Policies that keep everybody honest make everyone feel better. Staff want to know not only that they themselves are doing the right things, but that everyone else in the organization is too.

## Checklist For Cash Receipts

	YES	NO	N/A
<b>A. Segregation of Duties</b>			
◇ Are key duties in authorizing, processing, recording and reviewing transactions separated among individual employees?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are cashiers prevented from performing bank reconciliations or accounts-payable and cash disbursement functions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are employees who collect and deposit cash prevented from recording cash receipts and preparing general ledger entries?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are persons who receive cash prevented from dispersing cash?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are employees who record cash receipts and expenditures prevented from preparing general ledger entries?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are employees who approve disbursements prevented from making data entries for cash receipts and disbursements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>B. Cash Collection Controls</b>			
◇ Are receipts recorded promptly and deposited intact within 48 hours as required by City policy?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are receipts reviewed periodically for unusual fluctuations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are all receipts controlled by cash register, pre-numbered receipt slip or invoice or other equivalent means?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are cashiers prohibited from using receipts to cash their own personal checks or IOU's?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Is the make-up of the deposit (amounts of coin, cash denomination or check) clearly documented?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Do deposit slips show the amount of each check and the name of the check writer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Does the cashier prepare duplicate deposit tickets so that the bank can validate one copy, and a person other than the cashier can verify the deposit against the cash receipt?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are reports of daily receipts compared on a test basis to bank statements to verify timeliness of deposits?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are receipts accounted for and balanced to receipt records (register tapes, receipt books) on a daily basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Does an employee outside of the collection function periodically conduct a surprise cash count?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are all original voided or canceled receipts retained and accounted for in the records?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are all overages and shortages reported to management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>C. Incoming Mail</b>			
◇ Are remittances listed on a control sheet for comparison with the bank deposit slips?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Does the person opening the mail restrictively endorse all check remittances FOR DEPOSIT ONLY?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Is mail opened and distributed by a person other than the cashier or accounting personnel?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Is a pre-list of cash receipts made by the mail opener?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ If so, is such list used as a check against the deposit or receipt record?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>D. Petty Cash Accounts</b>			
◇ Are the cash receipts properly entered and reflected in the accounting record?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are persons other than custodians of cash funds prevented from having access to the funds?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Is replenishment made through the claim voucher process?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

◇ Are payments of cash from the petty cash fund supported by receipts?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
◇ Are petty cash funds properly reflected in the monthly cash report for the respective fund in the accounting records?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Office of City Auditor plans to continue perform-ing cash handling audits throughout the City. In addition, the Office of City Auditor will be sending a questionnaire to selected functions within City departments to assess whether their cash-handling systems include all basic cash-handling procedures. If you do not receive a questionnaire but would like to be included in this assessment process, or if you would like more information on how our Office can assist you in rethinking your processes or strengthening your management controls, please call Nora J.E. Masters, City Auditor, at 233-0088.

*“Good judgment comes from experience. And where does experience come from? Experience comes from bad judgment.”*  
Mark Twain